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Loan Officer Compensation

I would like to begin by saying that the forces of the free market and open competition have made the lending industry one of the most competitive segments of the economy that any professional in the private sector has seen or experienced. Borrowers seeking a home mortgage of all socio economic levels have a wide range of loan products to choose from and an infinite choice of lenders to deliver them. Mortgage Brokers, Mortgage Bankers, Credit Unions and Banks interact in the market place to the advantage of the borrower. By hampering or eliminating the current loan officer compensation practices, such as using rebate pricing to help cover loan costs such as origination fees and not using the loan amount to base the commission on, you will eliminate the borrower's ability to negotiate terms with the lender. Also by drastically changing or altering these policies could completely do away with the mortgage broker segment of the business. This would result in fewer choices for the consumer and make it very difficult for the low end borrower to obtain mortgage financing because the originator will not be compensated fairly. The low end borrower will simply not be worth the work to the mortgage professional because of the actual time and effort that goes into helping these types of home buyers. These people are usually first time buyers and have ethnic backgrounds. This would seem to be the last group of people you would want to alienate. A loan originator must have the capability to adjust the price to compensate for the work involved.

The current foreclosure crisis was not caused by loan originators being compensated based on the loan amount and rebate pricing. It was caused by an unprecedented loosening of underwriting guidelines in primarily the Ault A and Sub Prime areas of lending. These aggressive underwriting practices, which had no oversight for the prevention of fraud, allowed borrowers income to be misrepresented on a regular basis. The type of loans offered for these borrowers were mostly high risk adjustable rate loans which allowed loan originators to layer in pre-payment penalties and higher margins for huge premium pricing adjustments. With the failure of these loans came steep declines in property values which added to the foreclosures. The disappearance of these segments of the lending industry, have eliminated the majority of the problems which caused this crisis. The deployment of prudent underwriting practices, less risky loan products and oversight on loan origination conduct should create a sound atmosphere for lending. By deviating away from using rebates and loan origination fees based on loan balance in the A paper market will sharply reduce the borrower's ability to negotiate. Employing

other types of compensation methods would create fewer options for borrowers and make some types of borrowers undesirable to work with.

A realistic solution would be to restrict high risk lending by eliminating the incentive for a loan originator to receive premium priced compensation by inserting instruments into high risk adjustable rate loans such as prepayments penalties and higher than market margins. This is where the borrower has a disadvantage when trying to negotiate terms.

On the other hand Yield spread premiums or rebate pricing on "A" paper products should remain in place. I believe the loan balance should remain as the measuring stick of a loan officer's compensation. Pricing of the loan will be centered around the loan balance based on the borrower's ability to negotiate while taking into account the specific difficulties each particular loan origination and borrower has. Each borrower has their own challenges. By being able to negotiate the rate and costs around the loan amount creates equality between what the borrower pays and receives as a rate and what the lender has to perform in order to close the deal. Also by negotiating on this premise it will make it easier for the borrower to compare from one lender to another getting a feel for their particular situation and what it will take to get them financed.

By restricting this area of the lending process will end up reducing competition in the market place and eliminate the ability of the borrower to shop around and negotiate the best terms possible

My recommendation is to keep the status quo with regard to compensation in the "A" paper market with the thought of putting a maximum limit on the amount of ysp and fees to be charged based on the size of the loan. I hope this note helped shed so light on things from the perspective of someone who has been in the business for 22 years.

Merry Christmas

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